

Exhibits B-1 and B-2

Exemptions and Deferrals of Tax Increment

Redevelopment law, pursuant to California Health and Safety Code Sections 33334.2 and 33334.6, specifies very restrictive conditions that only enable a few agencies to exempt and/or defer from depositing some or all of the required minimum set-aside of allocated project area tax increment. Only deferrals constitute a debt that must be repaid to the Low-Mod Fund.

Exemptions - Section 33334.2(a) (2) (C)

Before an agency can exempt any amount of tax increment from deposit to the Low-Mod Fund, the jurisdiction (city or county) of the agency must have an adopted housing element that the Department has determined complies with applicable provisions of State housing element law. Once a jurisdiction's housing element is found in compliance, statutes require the agency to make one of the following three findings before exempting any amount of tax increment from deposit:

- No need exists in the community to increase, improve or preserve the supply of low- and moderate-income housing.
- Less than the required minimum set-aside is sufficient to meet the community's need.
- The community is making a substantial effort to meet its affordable housing need that is equivalent in impact to the funds exempted and the exemption is needed to meet specific existing contractual obligations incurred before May 1991.

Exhibit B-1 shows five agencies (Industry, Rosemead, Paramount, Needles and Brea) exempted tax increment from seven project areas totaling \$14,904,266. Exemptions this year reflect an increase of nearly \$2 million over the \$12,965,129 exempted in the previous year by the same five agencies. Each agency met the requirement of having an adopted housing element in compliance before taking the exemption. Although some agencies did not specify the authority used to claim an exemption, no agencies claimed an exemption on the basis of not having a need to improve and/or maintain the jurisdiction's supply of affordable housing.

Deferrals - Section 33334.6

Some agencies can defer all or a portion of the minimum set-aside of allocated tax increment from deposit to the Low-Mod Fund, if it is needed to meet debt obligations incurred from project areas approved before 1986. Any tax increment deferred from deposit to the Low-Mod Fund must be repaid. Agencies are required to adopt a plan to repay deferrals before the termination date of the project area.

Exhibits B-1 and B-2 (continued)

Exhibit B-2, shows nine agencies reported deferring a total of \$3,812,214 from deposit to the Low-Mod Fund. This year's deferrals reflect a small increase compared to last year's deferrals of \$3,812,214. Eight of the nine agencies reporting deferrals this year also deferred tax increment in FY 2002/03.

Seventeen agencies reported repaying \$1,809,889 of prior year deferrals whereas last year 14 agencies reported deferral repayments of \$3,786,249. At the end of FY 2003-2004 the outstanding deferral balance owed the Low-Mod Fund represents \$175,545,513.